FINANCIAL SECURITY PROGRAM
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LEADERSHIP FORUM ON
RETIREMENT SAVINGS

EXPANDING WORKER ACCESS TO AUTOMATIC ENROLLMENT INTO RETIREMENT SAVINGS

A RAPPORTEUR'S SUMMARY

April 27, 2021

1:00 p.m. – 4:00 p.m. Eastern

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ABOUT THE FORUM

In April 2021, the Aspen Institute's Financial Security Program kicked off the fifth annual Aspen Leadership Forum on Retirement Savings. The opening session was held virtually on April 15 and was open to the public. This was followed by a series of four invitation-only, virtual, in-depth private dialogues exploring critical challenges within our retirement savings system: expanding access to retirement savings, increasing portability of retirement savings, strengthening retirement cash flow, and building a retirement savings system that produces more racially equitable outcomes. More than 400 experts from across the retirement ecosystem – from industry, government, academia, advocacy, fintech, and more – participated in our public event, and 80 more participated in one of our private dialogues to advance breakthrough solutions to America's unfolding retirement savings crisis. To encourage open dialogue, the Forum private dialogues were governed by Chatham House Rule, under which participants are free to share what was discussed but are entrusted not to reveal the speaker's identity.

ABOUT THIS PRIVATE DIALOGUE

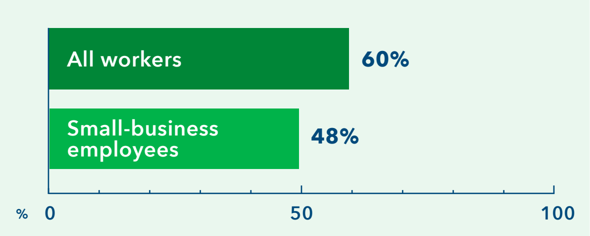
On April 27, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings kicked off its series of private conversations with a far-reaching discussion of one of the most fundamental challenges to retirement security: how to ensure that every working American has access to automatic enrollment into a retirement savings plan. Over the course of the session, the 18 participants identified the most formidable barriers to access, debated the most promising solutions, and explored whether the ability to contribute is in itself a sufficient solution.

NINE STATS THAT TELL THE ACCESS STORY

Four of 10 working Americans lack access to a retirement plan on the job[1], but that big-picture view fails to capture the scope of the problem of inadequate long-term savings, or the systemic failures that have excluded millions of people.

1. **Access is uneven.**

Access to a retirement savings plan on the job:

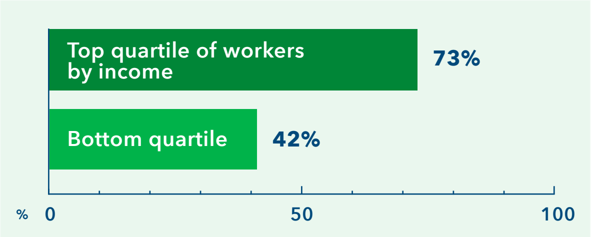


Notes: Civilian workforce only; small business = fewer than 100 employees

Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

2. **The highest-paid workers have a leg up.**

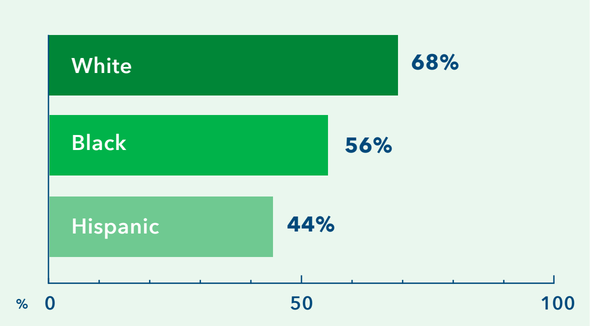
Access to a retirement savings plan on the job:



Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

3. **Workers of color are more often on the sidelines.**

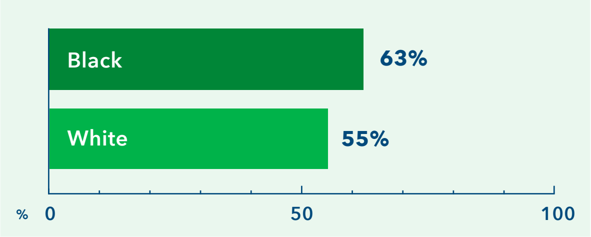
Working-age families with access to retirement plan at work:



Source: FEDS Notes, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," September 2020

4. **For Black investors, retirement plans are more likely to be an introduction to stocks.**

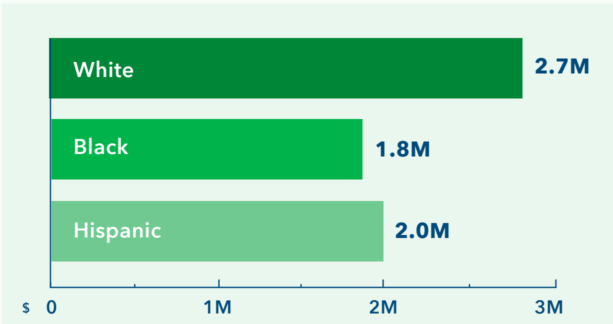
First invested in stock market through a retirement plan:



Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

5. Income disparities drive the savings gap, too.

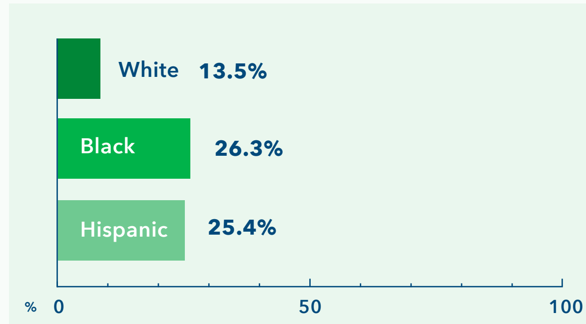
Average individual lifetime earnings:



Source: Urban Institute, "Nine Charts about Wealth Inequality in America", 2017

6. Social Security needs to be part of the conversation.

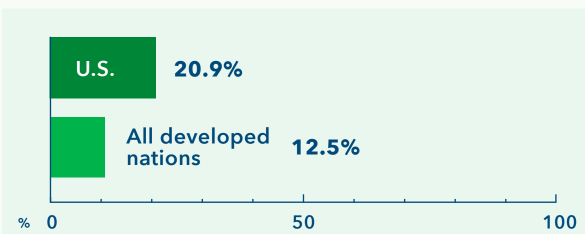
Reliance on Social Security for 100% of retirement income:



Source: AARP Public Policy Institute, "Social Security: A Key Retirement Income Source for Older Minorities.", 2012

7. A better outcome *is* possible.

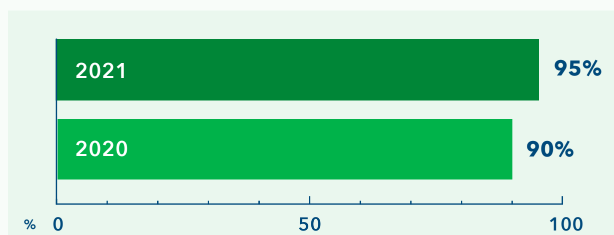
Poverty rates for citizens over 65:



Source: Organization for Economic Co-operation and Development (OECD)

8. Interest in creating plans is increasing among small businesses.

New 401(k) plans as a portion of business v. converting old plans, for a participating small business 401(k) plan provider:



Source: Private 401(k) provider

9. Reform *can* move the needle.

20-40M

number of additional workers who could contribute to a retirement plan by 2040 if national universal access is instituted

Source: Georgetown University Center for Retirement Initiatives, "What Are the Potential Benefits of Universal Access to Retirement Savings? An Analysis of National Options to Expand Coverage," December 2020

THE **BIG** QUESTIONS

1. While wider access to retirement plans is crucial, what else could help ensure savings adequacy?

Expanding access alone won't solve the problem of inadequate savings. The earnings gap drives the savings gap.

- Throughout the Forum, participants noted that gaps in retirement security originate in a widening wage gap in this country, especially for Black and Latinx workers compared with white workers. Access to a workplace retirement plan can be meaningless for any worker who struggles to cover day-to-day living expenses.
- Adequacy depends on higher incomes and more generous tax incentives. The most powerful tax incentive could be a refundable savers' credit that goes directly into a retirement plan.
- In a study of the potential benefits of universal access to retirement plans, the Georgetown University Center for Retirement Initiatives found that an auto-IRA could enable a young worker who saves steadily to age 65 to collect an additional $14,320 in annual income in retirement.[2] Coupling an auto IRA with a refundable savers credit would push that annual income up to $21,300.

OVERHEARD

"When we talk about the big divergence between Blacks and whites when it comes to wealth, it's important to remember the big divergence when it comes to earnings."

"If you take the scenario of a moderate-income worker saving from age 25 but make the savers tax credit refundable, ultimately, over time, you have the potential to boost annual income by an additional 50%."

2. Is it time for the state approach to go national?

Across the country, state governments are taking the lead in increasing access to retirement plans. In Oregon, California, and Illinois, most employers must offer a workplace retirement plan or automatically enroll their employees in a state-sponsored IRA funded through payroll deductions. Colorado, Connecticut, Maryland, New Jersey, and Virginia will be next up with similar plans, and some 20 other states have considered similar auto-IRAs.[3] But on the national level no such automatic enrollment exists, nor does the federal government require companies to provide workers with access to a retirement savings plan (though legislation has been introduced).

"The state programs are adding impetus to Congress to act on ideas that have been present for a good long time."

"Maybe we need to let the state experiment run a little longer to let more data flow in on what's working. Having a more data-driven policy at the federal level could be helpful."

- Forum participants expressed broad support for a federal law mandating access for all workers. Most, in fact, identified it as the single most powerful potential change to ensure sufficient financial security during retirement for people in America. This mirrors the results of a survey of retirement experts conducted on the eve of the 2021 Forum by the Aspen Institute Financial Security Program, in which 78% of respondents supported such a mandate.[4]
- There was less consensus over what form federal legislation should take, with options that ranged from enhanced tax incentives for employers who offer plans to a federal framework for the kind of plan offered.
- State auto-IRAs could play a role in expanding access in a variety of ways, participants noted. For one, state plans could be the catalyst that leads to a federal auto-IRA: If the number of states that adopt retirement savings mandates makes it onerous for companies operating in multiple states to manage benefits, it could spur the federal government to create a uniform standard. One participant noted that Social Security didn't exist until nearly three dozen states had initiated programs for the elderly, pressuring the federal government to act.

"If Congress were able to get a national employer mandate done without establishing a national public option, the state plans would figure out how to serve the smallest businesses across the country."

- Absent a federal auto-IRA, states could fill the public option void by allowing people from any state to sign up in theirs, or by forming multi-state plans. One crucial consideration is whether existing state plans could handle the increased volume.
- Some participants felt state plans should get more time to expand and mature before there's a mandate for a public auto-IRA option on the federal level. After all, states are proving to be useful labs to test plan design. In California, where the CalSavers auto-IRA is being rolled out to employers by size over three years, 90% of businesses are not yet subject to the mandate (though many have signed on early).

"The solution will not end up being a mandate. It's going to be bribing employers through tax credits. If technology makes hookups cheap enough, a bribe ought to do most of the work."

- One floated idea was to skip a federal mandate altogether in favor of more generous incentives in the tax code. Between employing technology that makes participation frictionless and compensating employers to cover their costs, one Forum attendee questioned whether a formal mandate is even needed.

FOR FURTHER REVIEW:

States and the Racial Wealth Gap

No discussion of retirement security in America can ignore the racial disparities in wealth and savings. One concern expressed in the session is that relying solely on states to be the means of increased access will not adequately address the racial wealth gap. That's because states least likely to introduce retirement savings mandates are also those with large Black populations. Case in point: the uneven expansion of Medicaid eligibility realized by the Affordable Care Act. Seven of the 12 states that have not yet adopted Medicaid expansion are Southern states with sizable Black populations.[5]

3. Do we already have the tools to build national coverage?

From the growing number of state auto-IRAs and multiple employer plans (MEPs) to pooled employer plans (PEPs) and private retirement plans, the components of nationwide coverage could already be falling into place. The Forum participants tried to envision how those pieces might fit together to expand access to all—closing the coverage gap for tens of millions of workers—and sought to identify what other pieces may be needed.

"I'm hoping we can actually use our collective wisdom to make more than a minimum viable product, to create something that doesn't have to be altered again in five years. We shouldn't hold ourselves back by saying, 'politics are impossible'."

"In my dream, there is a federal requirement that says that if you're an employer that has been around for two years or more and you employ five people or more, you have to offer a retirement savings program or facilitate retirement savings."

- One proposal was a three-tier approach that combined auto-IRAs, MEPs and PEPs, and private plans. Acknowledging that business size will be an important consideration in drafting such federal legislation, the proposal set the employee threshold at five.
- In this model, the first tier would be a simple, low-cost auto-IRA, either a state-run or federal plan. One participant described it as extending the retirement savings system entrance ramp to more workers.
- As noted above, some participants thought that, absent a federal auto-IRA, state plans could service employers from other parts of the country, going so far as to suggest that a national default plan is not needed. Others were not sure states could handle the volume.
- Small businesses often don't have human resources departments or the ability to act as a fiduciary for these plans, and those obstacles must be taken into account. Ideally, payroll integration and other technology could make plan

participation virtually frictionless for employers, and fiduciary responsibilities could be outsourced. (Of course, any approach must include consumer protections.) Such ease of use might even bring on enough employers to achieve the necessary level of broad coverage, even without a federal mandate.

- Making it easy for employers to graduate from an entry-level option to the next tiers—MEP/PEP, then a private plan—is also key to this model's success. The goal has to be to move as many businesses as possible into plans that offer more features.

FOR FURTHER REVIEW:

Building the Base

Forum participants debated the proper foundation for the three-tier model: a Roth IRA, a 401(k)-style account, or a hybrid of the two. Roths offer simplicity and the ability to withdraw for emergencies without penalty—an important benefit for low-income workers lacking sufficient emergency savings. A 401(k), on the other hand, allows for more features, including employer matches on contributions. Some participants were strongly in favor of that structure, but one attendee suggested that Roth-based models could include an emergency savings program.

"We look at IRAs and we look at 401(k) models, but the reality is that the most significant factor in getting people to save isn't the model, it's who's covered in the model."

4. How can small businesses be brought on board?

One third of private-sector workers are employed by businesses with fewer than 100 employees, yet only 48% of those firms offer a retirement savings plan.[6] That makes small businesses a necessary focus of any discussion about expanding access, especially to underrepresented groups.

"The small business issue is also a race issue. There are about twice as many Hispanics working at small businesses than at large companies. So if you solve the small business retirement problem, you make a big impact."

- Traditionally, small businesses are resistant to regulation, but the question was raised about whether they are actually opposed to state-mandated auto-IRAs—and by extension any potential federal requirement to enroll workers in a retirement plan. Some participants noted that, in theory, businesses might be open to states making it easier for them to offer a benefit their employees want.

- What would it take to convince resistant businesses to participate in a government-run retirement plan? No or low costs, of course, but also ease of use and seamless

"We know what the pushback to a mandate will be. It will come from business, and it will be around the fact that it costs more, in time and real dollars."

integration with payroll systems were deemed to be keys to widespread uptake. Time is a business owner's most precious commodity. As one speaker noted, glitches during the launch of a federal health insurance marketplace cast a lasting shadow over the Affordable Care Act. Any new government retirement program, then, must get the technology right from the outset.

- Participants looked at what effect public retirement savings options, such as state auto-IRAs, might have on the private-plan market. Will they crowd out company 401(k)s? Early evidence from states with auto-IRAs suggests that, in fact, mandates may be leading more companies to introduce their own plans. In California, for example, 401(k) providers are competing for small businesses newly subject to the mandate. The tax credits available to businesses to offset the costs of creating plans, part of 2019's SECURE Act, may also be driving private-plan formation.

"One thing we know about state programs is that many employers see them as a catalyst, a reason to set up their own individual plans."

- It was proposed that a spike in the number of small retirement plans could present an opportunity for retirement-plan sponsors. Small plans might serve as a gateway to retirement savings, resulting in a larger pool of assets to manage. In considering a public retirement option, one idea that could win the support of the 401(k) industry is a starter savings plan capped at $15,000, after which the account holder would have to roll over the money into a private plan.

"Creating lots of small plans shouldn't be a threat to the industry as a whole. All big plans start small. We have to create an on ramp."

- Participants noted that proponents of auto-IRAs can't assume labor will be an automatic ally. Workers who are automatically enrolled in a retirement plan that reduces their paycheck by 5%, say, could rightly see that as a pay cut if it is not covered by employers or the government. Encouraging more savings by low- and moderate-income workers may well require a combination of accessible automatic savings vehicles and more generous tax incentives.

FOR FURTHER REVIEW:

The Employer's Role

For all the discussion about how to bring employers on board, participants also noted the risks of centering the retirement system on private businesses. Ongoing technological change and the transition to a clean-energy economy, to name two significant commercial forces, may put even well-established companies out of business. Economic factors have already impacted pensions, which are more likely to be offered by traditional conglomerates. Could employer-sponsored retirement savings plans also be affected? Then again, if businesses no longer have to assume the role of fiduciary, who will look out for the interests of retirement savers?

5. Given the politics of retirement, what's actually possible?

Recent years have seen a burst of bipartisan retirement legislation in Congress, from the passage of the SECURE Act in 2019 to notable retirement provisions in the 2020 Covid relief package. Pending legislation includes "SECURE 2.0," which would, among other provisions, mandate automatic enrollment for newly created retirement plans and enhance tax incentives for small businesses to offer plans. But how much has been achieved legislatively so far, what are the chances of significant reforms successfully passing, and who will champion retirement security going forward? Forum attendees tackled all those questions.

- Thirteen years elapsed between the 2006 passage of the Pension Protection Act and the next piece of major retirement legislation, the SECURE Act of 2019. If Congressional support for retirement reform can be mustered only every decade or so, the odds of passing a national retirement savings mandate seem long.

> "The difference between our aspirations and what Congress has produced in the last 10 years is pretty large."

- Some participants felt that the window to pass any meaningful retirement legislation could close within the year. Given that House Ways & Means chair Richard Neal (D.-Mass) has been a reliable champion of reform, much hinges on his continued tenure as head of that committee, and that, of course, is dependent on 2022's mid-term elections. Other notable leaders on this issue include senators Ben Cardin (D.-Maryland) and Rob Portman (R.-Ohio). Several attendees didn't see a pipeline of future congressional leaders; others, though, think there is a capable next generation on both sides of the political aisle.
- Retirement legislation typically originates in the House Ways and Means committee as tax policy. Participants, though, noted that framing it as tax policy is likely preventing the country from developing the solutions people need for a secure retirement.
- The slow pace of federal reform is why so many states have taken steps to ensure wider access to workplace retirement plans. And while the early adopters of auto-IRAs have tended to be "blue" states, participants noted that even Republican-led ones like Utah and Wyoming are considering similar programs. State governments, they said, recognize the huge potential costs of unprepared retirees. Furthermore, surveys show deep support among workers.[7]

> "The states have realized there are big problems in this country with access and adequacy. They are taking action where the federal government hasn't been able to do so yet."

FOR FURTHER REVIEW:

Picking Up the Pace

Though Congress has passed historic retirement legislation and continues to pursue a follow-up bill, participants called progress to date modest. The most important potential change—universal access to a workplace retirement plan—remains unrealized, and participants noted it faces stiff odds of passing anytime soon. The expansion of pooled employer plans (PEPs) and multiple employer plans (MEPs) made possible by recent legislation is an important step forward, but it's a small one in terms of closing the coverage gap. One participant noted that more PEPs and MEPs could give 700,000 new savers access to workplace retirement plans, but that pales against the estimated 30 to 50 million who would gain access through a national retirement mandate.

"The order of magnitude of what PEPs and MEPs are likely to do to expand coverage is an entirely lower order than the potential of automatic IRAs. We ought to keep our eye on that ball and not fall into the misperception that Congress has done a lot recently."

6. Should any discussion of plan access include—or possibly start with—another pillar of retirement income, Social Security?

Though expanding the availability of workplace retirement savings is seen as crucial to increasing retirement security, the conversation repeatedly turned to the existing national retirement program as participants debated how universal plan access could take form.

- Given the universal nature of the Social Security system, some questioned whether an additional national savings system is even necessary. Instead of establishing new ways to save for retirement, could employers simply be allowed to make additional contributions within the existing system? That approach would, of course, require neither new technology nor additional sign-up as virtually all employers already make such payments.

"To suggest that low-income workers should settle for Social Security benefits alone discourages savings. State plans have shown that given the opportunity to save, low-income workers will."

- Allowing employers to increase contributions to Social Security on behalf of their workers would free them of any new administrative burdens that might come with a national savings mandate, not to mention the fiduciary responsibility for workers' savings. Using Social Security as the means for helping low-income workers build greater retirement savings would, however, require changes to the benefit formula to ensure that those workers benefitted the most.

> "Social Security is eventually just going to pay your health care bills because already 40¢ of every dollar goes to health care costs. When you're in your 80s, it's going to be like 90¢ per dollar."

- Some participants argued that even if Social Security were to be expanded, the more generous benefits would not override the need for outside retirement savings. Having both steady income from Social Security and a pool of savings to tap provides crucial breathing room in workers' budgets. That's especially true as expenses change over the course of retirement and health care costs eat up an ever-larger portion of Social Security income.

- Another argument for saving for retirement outside of Social Security is this lesson from state auto-IRAs: Even small monthly savings can make a meaningful difference in the long term. For instance, contributing as little as $100 a month can result in an additional $14,000 a year in retirement income.[8]

- Some participants weren't convinced that workers would take to relying on Social Security, pointing out that many younger Americans are already skeptical of the system. Workers who see payroll taxes coming out of every paycheck may feel that they are already contributing too much to a "broken" system. Lacking trust in the system, many may prefer to save on their own.

- Finally, any discussion of Social Security should recognize the disproportionate importance of the program for Black and Indigenous people. Black and Indigenous people have lower projected longevity and higher rates of disability due to a combination of factors, including limited access to high quality healthcare and environmental risk factors. As a result, Black and Indigenous are more likely to rely on disability and survivor benefits.[9] An additional retirement savings program may not address these very real risks.

FOR FURTHER REVIEW:

The Ticking Clock

Regardless of whether Social Security is expanded, shoring up and strengthening the system needs to be a legislative priority. With the trust fund insolvency date of 2033 moving ever closer, some felt that a meaningful conversation about Social Security is becoming more likely. The system may be on the cusp of a political moment.

ONE PLAN THAT'S WORKING NOW

When OregonSaves launched in 2017, it was the first state-sponsored auto-IRA in the nation. Designed to aid the estimated one million workers in the state without access to a work-based retirement plan, the program requires most private employers that don't offer a savings option to enroll employees in OregonSaves, with a 5% default contribution rate. In the four years since, plan assets have surpassed $100 million, and more than 100,000 savers have funded accounts, set up as Roth IRAs. With participating workers contributing $143 a month on average, the average account balance currently stands at just over $1,100.[10]

A recent working paper published by the National Bureau of Economic Research found that OregonSaves has "meaningfully increased employee savings" among the primarily low-wage, high-turnover workforce it serves. And though roughly one third of enrolled employees opt out, the researchers noted that may reflect an understandable need for low-income workers to prioritize short-term savings.[11]

To date, local businesses appear satisfied with OregonSaves. In surveys by the Pew Charitable Trust, nearly three quarters of participating employers report being satisfied with or neutral about the program. What's more, employers who are actually funding accounts through payroll contributions expressed higher satisfaction than ones who have recently signed up—a possible sign that working with OregonSaves is a positive experience.[12]

ONE DEVELOPMENT TO WATCH

Workers are typically paid every two weeks or even monthly, potentially creating a cash crunch for those who lack emergency savings. The wait can lead people to incur hefty overdraft fees or force them to turn to costly financial products like payday loans. A payroll approach called "earned wage access" eliminates the delay, permitting workers to collect what they earned on any single day right away, then have those advanced funds debited from their next paycheck.

At the Forum, the question was raised about whether this immediate payroll system could have an impact on retirement savings behavior. As one participant suggested, from a behavioral standpoint having ongoing access to cash may not encourage regular savings the way automatic 401(k) enrollment does. Still, by better matching income to spending needs and eliminating the fees associated with various forms of high-cost credit that erode low-paid workers' income, earned wage access could have a positive effect on overall financial health. It's a topic worthy of further study.

ENDNOTES

1 U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" March 2020

2 Georgetown University Center for Retirement Initiatives, "What Are the Potential Benefits of Universal Access to Retirement Savings? An Analysis of National Options to Expand Coverage," December 2020

3 The Pew Charitable Trusts, "How Auto-IRAs Help Retirees Delay Claiming Social Security: An Update," March 2021

4 Aspen Institute Financial Security Program, "Expert Survey on Retirement Savings: Support for Solutions for an Inclusive, Adequate Retirement Savings System," April 2021

5 Kaiser Family Foundation, "Status of State Medicaid Expansion Decisions," September 2021

6 J.P. Morgan Asset Management, "The growth of state mandated auto-IRA programs," March 2021

7 The Pew Charitable Trusts, "Worker Reactions to State-Sponsored Auto-IRA Programs," October 2017

8 Georgetown University Center for Retirement Initiatives, "What Are the Potential Benefits of Universal Access to Retirement Savings? An Analysis of National Options to Expand Coverage," December 2020

9 Social Security Office of Retirement and Disability Policy, "African Americans: Description of Social Security and Supplemental Security Income Participation and Benefit Levels Using the American Community Survey," 2014

10 OregonSaves monthly dashboard, July 2021

11 National Bureau of Economic Research, "Auto-Enrollment Retirement Plans for the People: Choices and Outcomes in OregonSaves," February 2021

12 The Pew Charitable Trusts, "OregonSaves Auto-IRA Program Works for Employers," April 2021

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